



Budget Education Sessions

Series #2:

April 6, 2004

Overview of General Fund

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Purpose of Presentation

To provide Council an overview of where the City's General Fund Revenues come from, how these resources are spent and the issues affecting them



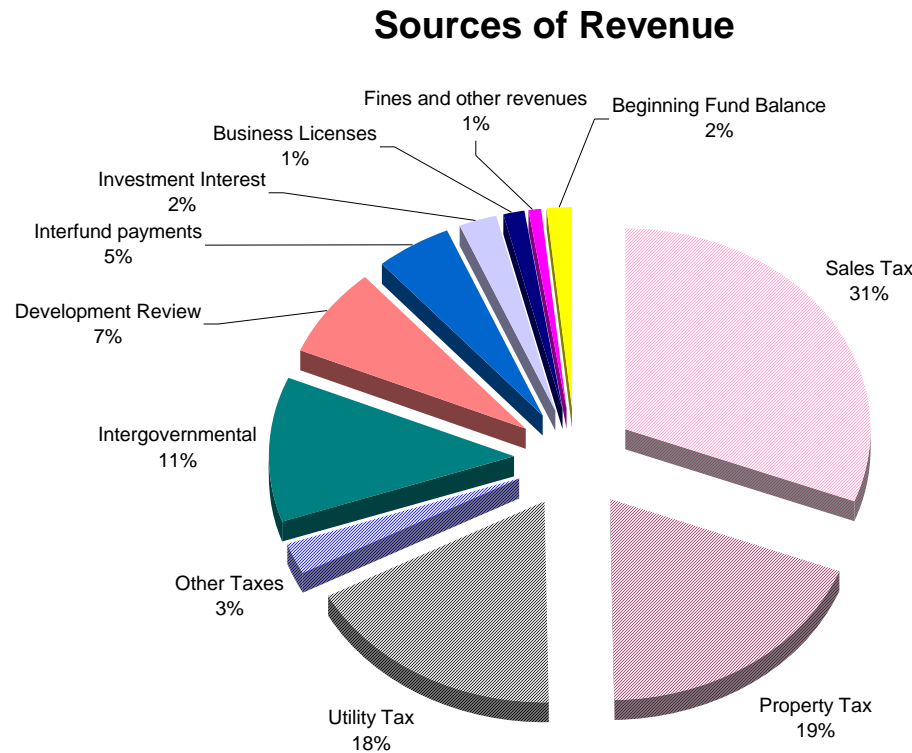
Why does the General Fund receive so much attention?

- The City's largest fund
- Primarily funded by taxes
- Highly sensitive to changes in the economy
- Funds basic City services which are most visible to the community including Police, Fire, Parks, Public Works, Planning and Administrative activities
- Transfers money to other funds (e.g. CIP, information technology, fleet, capital equipment, human services, park activities)

General Fund

- Where money comes from?

- 71% of total revenues come from taxes



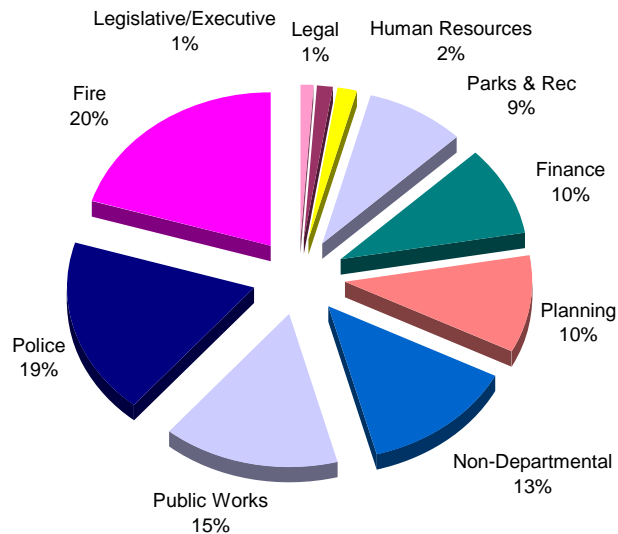
2003-04 Biennial Budget: \$106.5M

General Fund

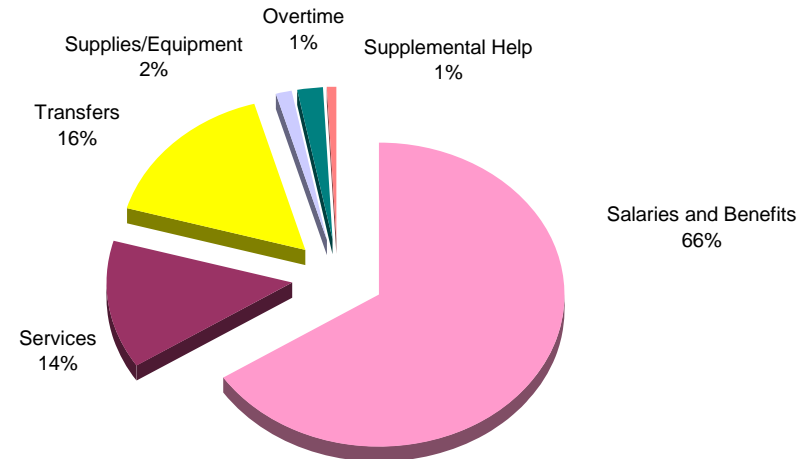
- Where does the money go?

- City government is an intensive service-oriented business
 - 66% of expenses are for salaries & benefits

Expenditure by Department



Expenditures by Object



2003-04 Biennial Budget: \$106.5M



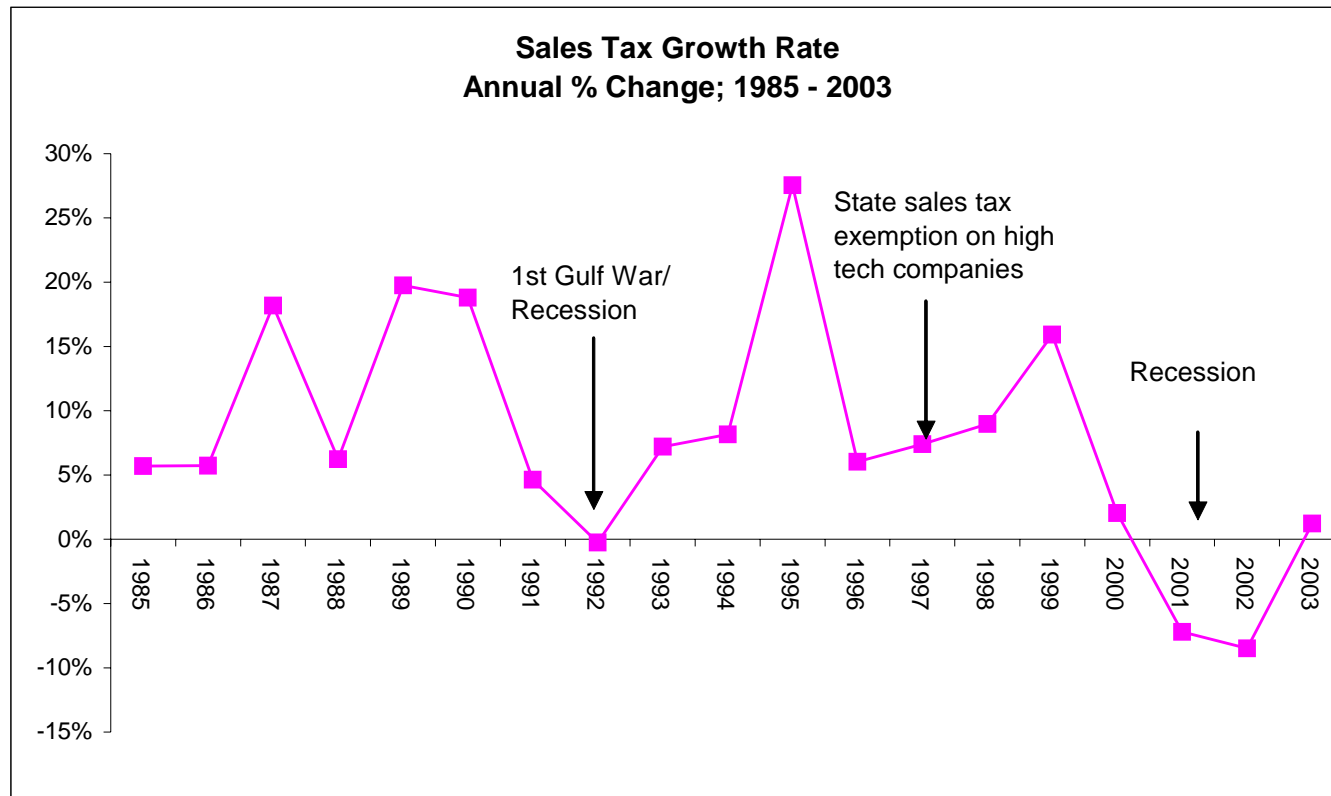
General Fund Revenues

- Sales Taxes
 - Largest revenue source accounting for one-third of operating revenues
- Tax rate: 8.8% of purchase price.
 - Redmond receives approximately 9.6% of sales taxes plus a per-capita allocation of criminal justice sales tax revenue received by King County
- Allocation
 - 6.50% - State (73.9%)
 - .85% - Redmond (9.6%)**
 - .80% - Transit (9.1%)
 - .40% - RTA (4.5%)
 - .15% - County (1.7%)
 - .10% - Criminal Justice – shared County/City (1.1%)
 - 8.8% – Total (100%)*

*Note: Sales tax rate for restaurants is at 9.3% and includes .5% stadium tax

Sales Taxes

- Very sensitive to changes in the economy





Breakdown of Sales Tax Revenue

- The economic recession impacted business spending and construction the most with modest improvements in retail activity

SIC Category	2000 Actual	% of Total	2003 Actual	% of Total	2000 - 03 % Change
Construction	\$3,396,746	19.5%	\$2,128,599	12.9%	-37.3%
Retail	\$6,146,170	35.3%	\$6,937,745	42.0%	12.9%
Wholesale	\$3,009,433	17.3%	\$2,192,318	13.3%	-27.2%
Busn Svcs	\$2,727,451	15.7%	\$2,370,225	14.4%	-13.1%
Other	\$2,129,197	12.2%	\$1,428,882	8.7%	-32.9%
Audit adjustment*	\$0	0	\$1,450,000	N/A	N/A
Total	<u>\$17,408,997</u>	<u>100%</u>	<u>\$16,507,770</u>	<u>91%</u>	<u>-5.2%</u>

Source: Department of Revenue

* 2003 includes \$1.45M in one-time audit payments



Property Taxes (19%)

- Second largest and most stable revenue source
 - 2004 Regular levy: \$11.4 million
 - 2004 Excess levy: \$2.4 million
- Levy rate: \$10.35/\$1,000 in assessed valuation; City share is \$1.57
 - For example, homeowner with a \$400,000 home in Redmond is currently paying \$4,140/year in property taxes, of which \$628 or 15% goes to the City of Redmond



Property Taxes Comparison

- Between 1995 and 2003, Redmond's share of property taxes has decreased

Levy rates per \$1,000 AV

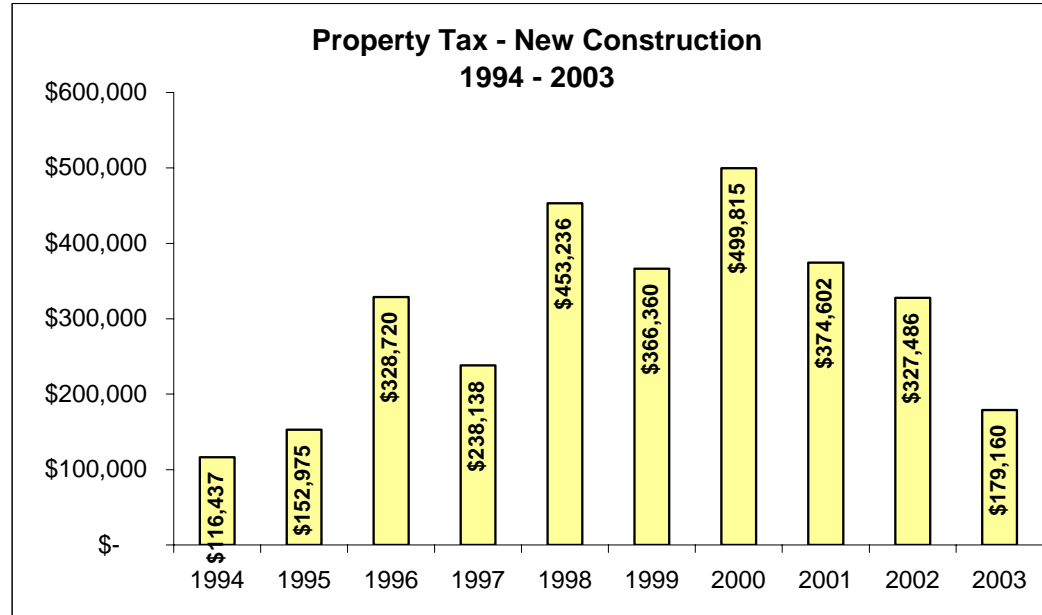
	1995	% of Total	2003	% of Total
School District	\$3.98	29.4%	\$3.07	29.7%
State of Washington	\$3.42	25.2%	\$2.90	28.0%
City of Redmond	\$2.46	18.1%	\$1.57	15.2%
King County	\$2.25	16.6%	\$1.35	13.0%
Library District	\$0.49	3.6%	\$0.55	5.3%
Hospital District	\$0.42	3.1%	\$0.34	3.3%
Port of Seattle	\$0.29	2.1%	\$0.26	2.5%
Emergency Medical Services	\$0.25	1.8%	\$0.24	2.3%
Library Capital Facilities	\$0.00	0.0%	\$0.07	0.7%
	\$13.56	100.0%	\$10.35	100.0%

Source: KC Assessor's Office

Note: Although the levy rate has declined between 1995 and 2003, the amount of taxes collected has increased over this same period.

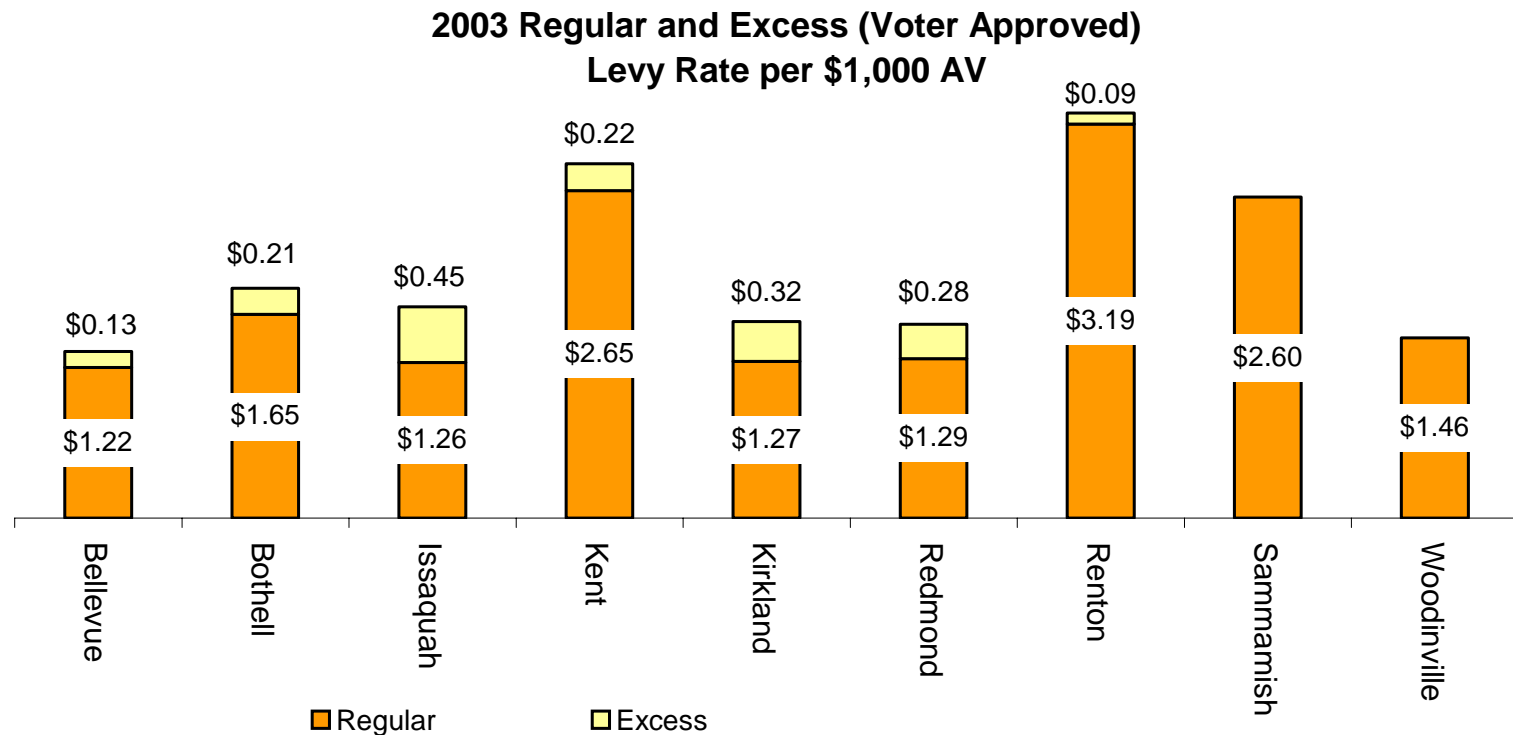
Property Taxes

- Property Tax growth is highly dependent on new construction as the City's regular levy can only be increased by up to 1% without voter approval
- Property taxes attributable to new construction has declined dramatically since 2000



Source: King County Assessor

How Redmond's Property Tax Levy Rate Compare to Other Jurisdictions



Source: King County Assessor's office

Changes in Assessed Value and Property Taxes (1997 vs. 2004)

	1997	2004	Dollar	Percentage	1997	2004	Dollar	Percentage
Commercial	AV	AV	Change	Change	Redmond	Redmond	Change	Change
					Property Tax	Property Tax		
High Tech	3,575,800	5,644,200	\$2,068,400	58%	\$8,546	\$8,974	\$428	5%
High Tech	8,884,100	11,709,600	\$2,825,500	32%	\$21,233	\$18,618	(\$2,615)	-12%
Office Building	7,770,000	11,190,900	\$3,420,900	44%	\$18,570	\$17,794	(\$777)	-4%
High Tech	9,846,700	11,824,800	\$1,978,100	20%	\$23,534	\$18,801	(\$4,732)	-20%
Manufacturing	2,915,200	4,965,200	\$2,050,000	70%	\$6,967	\$7,895	\$927	13%

	1997	2004	Dollar	Percentage	1997	2004	Dollar	Percentage
Residential	AV	AV	Change	Change	Redmond	Redmond	Change	Change
					Property Tax	Property Tax		
View Ridge East	162,000	324,000	\$162,000	100%	\$387	\$515	\$128	33%
Rose Hill	132,400	251,000	\$118,600	90%	\$316	\$399	\$83	26%
Education Hill	144,200	267,000	\$122,800	85%	\$345	\$425	\$80	23%
Marymoor Hill	321,600	546,000	\$224,400	70%	\$769	\$868	\$100	13%
Abbey Road	285,300	476,000	\$190,700	67%	\$682	\$757	\$75	11%
Sheffield Green	256,100	448,000	\$191,900	75%	\$612	\$712	\$100	16%

Source: King County Assessor

Increases in assessed valuation (AV) does not necessarily correlate to an increase in property taxes. Although the AV for all commercial properties above have increased, many have experienced a decline in total taxes paid.

Between 1997 and 2004, the AV for residential properties have grown at a faster rate than commercial properties.

As a result of the faster growth rate in residential AV, residential property taxes have increased more rapidly than commercial properties.

*1997 Redmond Prop Tax rate: \$2.39 per \$1,000 AV; 2004 \$1.59 per \$1,000 AV



Utility Taxes (18%)

- Third largest revenue source
- A Utility Tax is a tax applied upon the gross income of public and privately owned and operated utilities.
- Electricity and Telephone Utility Taxes comprise 80% of this category

Utility	Current Rate	Maximum Rate	2003-04 Budget (\$M)
Telephones (including cellular phones)	5.50%	6.00%	\$7.45
Electricity	5.50%	6.00%	\$7.39
Natural Gas	5.50%	6.00%	\$2.00
Garbage	6.00%	None	\$0.92
Cable TV	5.00%	5.00%	\$0.90
City Water, Sewer, Stormwater	0.00%	None	\$0.00
			<u>\$18.66</u>

Note: State Law authorizes utility taxes on City Water, Sewer, Stormwater Utilities.
There is no limit on the tax rate for water/wastewater, stormwater or garbage. If the Utility tax were extended to City water and sewer services, each 1% could generate about \$157,000 in revenue.

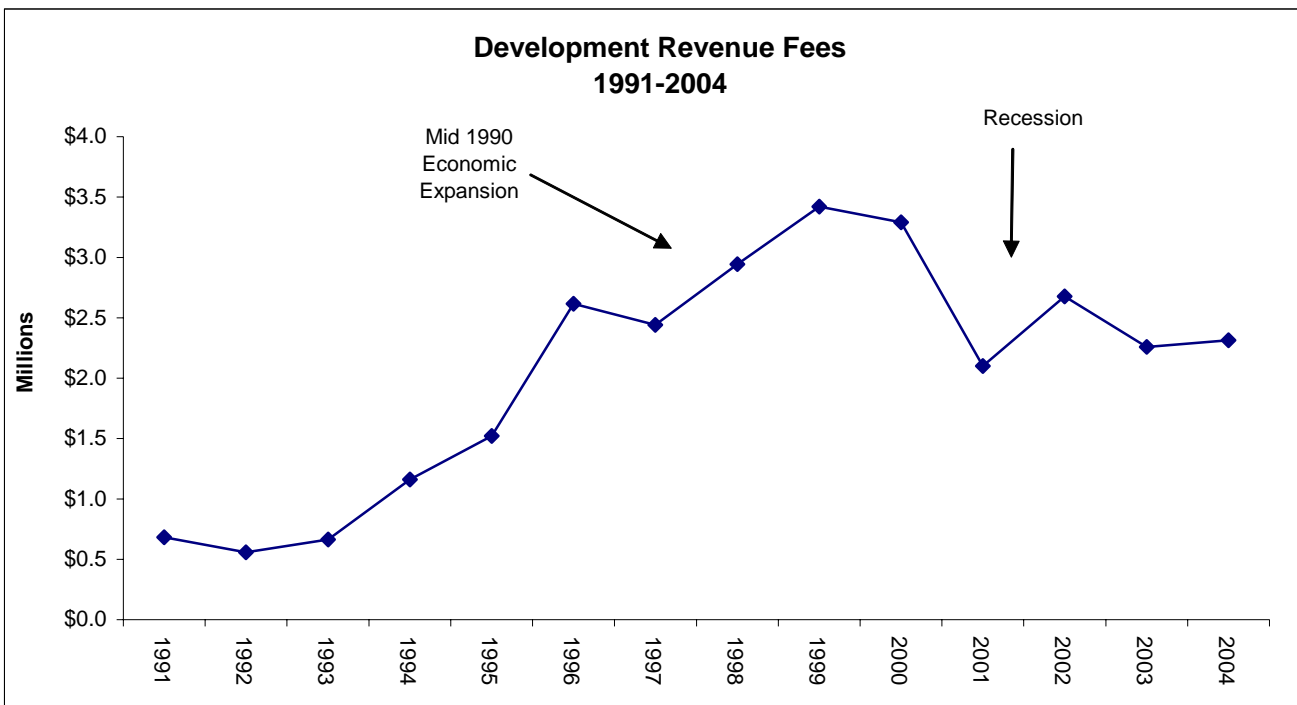


Development Revenue

- Represents approximately 7% of General Fund revenue
- Development Fees are established to recover between 85% to 90% of the full cost of providing development review services (Policy)

Development Revenue

- Highly cyclical



Source: City Financial Records



Development Revenues

- Construction Activity (square feet)

- With the exception of residential construction, development activity has declined dramatically

Building Permits Issued by Type in Sq Feet

	<u>1999-2000</u>	<u>2001-2002</u>	<u>2003-2004</u>
Commercial Construction	7,514,000	2,938,300	1,220,000
Tenant Improvements	7,599,118	3,556,000	1,779,000
Multi-family Construction	332,700	1,044,200	647,600
Single-family Construction	893,400	893,000	1,885,000
Total	16,339,218	8,431,500	5,531,600

Source: Planning Dept, Building Division



Intergovernmental Revenues (11%)

- Intergovernmental revenue represents revenues received from other jurisdictions
- Major Sources
 - Fire District #34 - \$7.3M
 - Sammamish/Eastside Fire and Rescue Fire Contract - \$1.3M
 - King County Emergency Medical Services (Basic Life Support) - \$800K
 - Revenue for advanced life support is receipted into a separate fund
 - Fire apparatus maintenance contracts - \$110K
 - State shared liquor profits/taxes and motor vehicle fuel taxes - \$2.2M



Other Major Revenues

- Interfund payments (\$5.4M)
 - Comprised mostly of payments made by Utilities for general city services

- Investment interest (\$2.4M)
 - Interest from investments forecasted at \$800,000
 - Has declined significantly due to combined effects of historically low interest rates and lower General Fund cash balances relative to other funds

- Business licenses (\$1.6M)
 - Of the \$67.50/FTE head tax, the General Fund receives \$12.50



Potential Revenue Threats

- The economy
- Tim Eyman's 25% property tax cut initiative (est. loss of \$2.8M/year)
- Future fire service arrangements with Sammamish/Eastside Fire and Rescue



Unused Tax Capacity

Major Tax Sources	2003 Budget	2003 Rate	Maximum Rate	2003 Estimated Remaining Taxing Capacity
Property Tax - Regular	\$11,047,715	\$1.29	\$3.10	\$15,716,000
Property Tax - Excess	\$2,390,755	\$0.28	N/A	No limit; Voter approved
Sales Tax	\$16,950,000	1.00%	1.00%	\$0
Electric Utility Tax	\$3,642,000	5.50%	6.00%	\$331,000
Gas Utility Tax	\$984,000	5.50%	6.00%	\$89,500
Telephone Utility Tax	\$3,640,000	5.50%	6.00%	\$331,000
Admission Tax	\$447,000	5.00%	5.00%	\$0
Cable TV Franchise Fee	\$440,000	5.00%	5.00%	\$0
Real Estate Excise Tax	\$2,100,000	0.50%	0.50%	\$0
Business License Surcharge	\$3,537,000	\$67.50 per FTE	N/A	No limit
Business and Occupation Tax on Gross Receipts	\$0	0%	0.20%	\$17,600,000 [1]
Garbage Tax	\$457,000	6.00%	N/A	No limit
Water/Wastewater Utility Tax	N/A	0.00%	N/A	No limit
Stormwater Utility Tax	N/A	0.00%	N/A	No limit
Hotel/Motel Tax	\$120,000	1.00%	1.00%	\$0
Banked Capacity	\$1,391,500	N/A	N/A	[2]

Footnotes:

1. Preliminary information from Department of Revenue estimates B&O tax could generate apx \$17.6M, based upon 2002 gross receipts.
2. As of 2003, City's banked capacity is \$1,391,458, which is the difference between what the City receives as part of the regular levy and the maximum allowable under current law. The banked capacity will grow each year, reflecting a 1% growth each year in the maximum allowable amount as prescribed under Initiative 747.

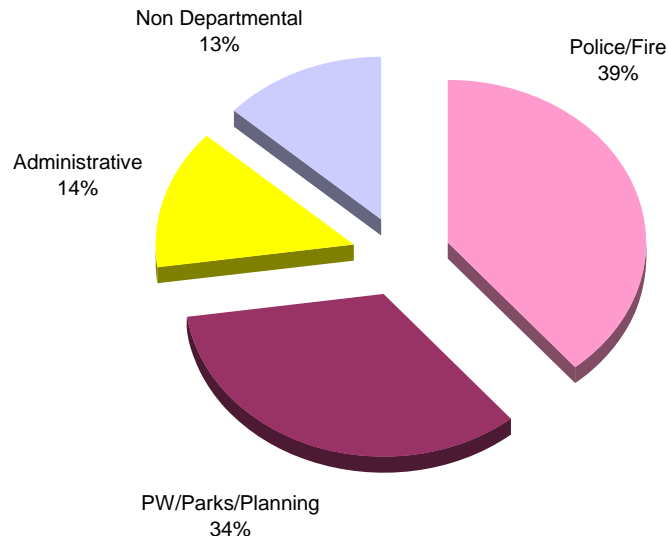


General Fund Expenditures

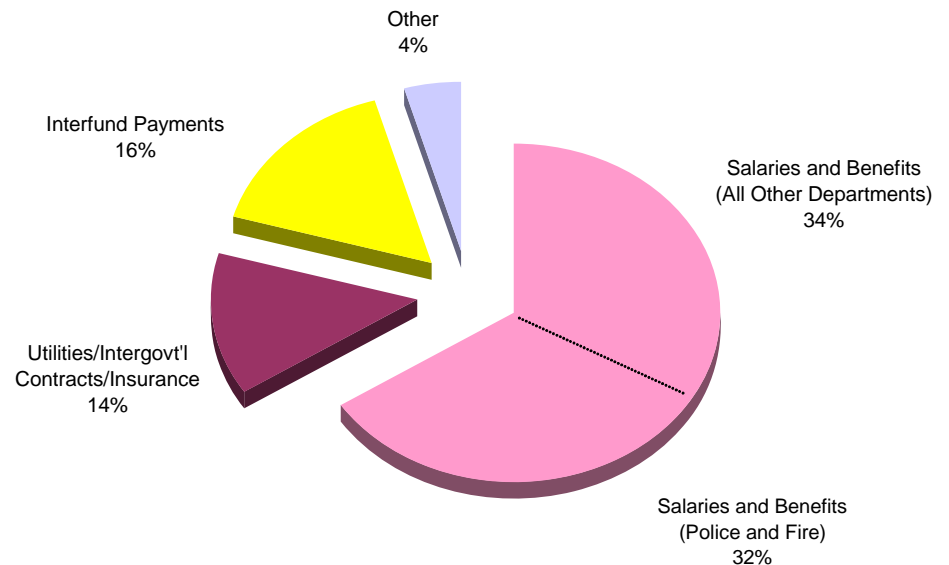
General Fund Expenditures

- General Fund expenditures are not as elastic as revenues
 - Approximately 80% are salaries/benefits, utilities, intergovernmental contracts, and insurance payments
- Police and Fire comprise 40% of total General Fund expenditures and nearly half of all salary and benefits

Expenditure by Department



Expenditures by Object



2003-04 Biennial Budget: \$106.5M



General Fund Expenditures

- Cost Drivers/Future Threats
 - Operational cost drivers
 - Wages growing 3%/year
 - Health benefits projected to grow 11%-15%/year (premium cost sharing will offset a portion of these costs)
 - Overtime growing 11%/year
 - Insurance premiums (doubled in the aftermath of September 11)
 - King County court costs
 - Jail costs
 - New City Hall lease obligations
 - New demand for services (e.g. NE Education Hill Fire Station)
 - Substantial growth in the City since 1990
 - Residential population growth (29% growth between 1990 and 2002)
 - Employment growth (140% growth between 1990 and 2002)
 - Commercial growth (58% growth between 1990 and 2002)
 - Interjurisdictional cost drivers
 - Divestiture of state and regional services
 - Unfunded mandates



Transfers to Other Funds

- Approximately 16% of the General Fund is transferred to other funds (policy)

Description of Transfer	2003-04 Budget
Information Technology	\$3,289,495
Fleet Maintenance and Insurance	\$2,895,945
Capital Equipment Reserves	\$2,000,000
Liability Insurance	\$1,379,132
Human Services	\$1,075,922
Other (Fire equipment reserve; arts)	\$681,061
CIP - 5% of General Fund revenues	
Transportation	\$2,152,840
Parks	\$956,818
Police	\$717,613
General Government	\$639,205
Fire	\$478,409
Council CIP	\$239,204
CIP - 5% total [1]	<u>\$5,184,089</u>
Total transfers	<u><u>\$16,505,644</u></u>
Percent of 2003-04 Budget	16%

[1] Note: CIP also receives \$1.1M/year from sales taxes. This amount is receipted directly into the CIP program and is therefore not included in this figure.



Conclusion

- Structural mismatch of General Fund revenues to expenditures
 - Nearly half of the General Fund's revenue is sensitive to changes in the economy...

While approximately 80% of the General Fund's expenditures are salaries/benefits, utilities, intergovernmental contracts, insurance

- Significant cost drivers on the horizon...

However, revenues face significant challenges

- Major structural decisions will need to be made in future years to balance budgets



End of Presentation